

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 NEA-10 ADP-00 CIAE-00 DODE-00 PM-09

H-02 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01

SS-15 USIA-12 EB-11 COME-00 INT-08 SCEM-02 GAC-01

OMB-01 TRSE-00 CIEP-02 AID-20 RSR-01 /166 W

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R 171412 Z MAY 73

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 9556

INFO USINT ALGIERS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

C O N F I D E N T I A L LAGOS 3953

E. O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: PARTICIPATION NEGOTIATIONS

REF: TRIPOLI 638

1. SUMMARY: APPEARS THAT LIBYA IS URGING FMG TO STIFFEN ITS DEMANDS TO OIL COMPANIES AND NOT CONCLUDE PARTICIPATION TALKS ON WHICH AGREEMENT IS REPORTEDLY NEAR. WE BELIEVE THERE IS GOOD CHANCE FMG WILL RESIST LIBYAN PRESSURES IN ORDER AVOID RADICAL SOURCE OF ACTION WHICH COULD LEAD TO CONFRONTATION WITH OIL COMPANIES, PARTICULARLY SINCE FMG APPEARS NEAR AGREEMENT WITH COMPANIES WHICH PROVIDE PARTICIPATION TERMS MORE FAVORABLE THAN THOSE OBTAINED BY ARAB PERSIAN GULF STATES AND IRAN.

END SUMMARY.

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2. AS INDICATED REFTTEL, LIBYAN PETROLEUM MINISTER MABRUK'S VISIT TO LAGOS PROBABLY INTENDED DELAY CONCLUSION OF PARTICIPATION AGREEMENTS IN EXISTING OIL CONCESSIONS. MAY 16 "DAILY TIMES" QUOTES MABRUK AS STATING ON ARRIVAL IN LAGOS THAT "IDEA OF PARTICIPATION IS OUTDATED" AND OIL-PRODUCING STATES SHOULD OBTAIN "FULL CONTROL AND OWNERSHIP OF OIL RESOURCES." MABRUK DELIVERED NOTE TO GENERAL GOWON FROM COL. QADHAFI WHICH MABRUK STATED CONTAINS "ELEMENTS OF OIL MATTER." HE ALSO ASSERTED, ACCORDING TO ARTICLE, THAT LIBYA IS DETERMINED TO "EXERT HER RIGHTS BY ANY MEANS" AND HAS "NO COMPROMISES TO OFFER OIL COMPANIES."

3. ALTHOUGH PETROLEUM-PRODUCING COMPANIES MAINTAINING TIGHT VEIL OF SECRECY ON TERMS, THEY HAVE CONFIDED THAT SHELL-BP VERY CLOSE TO GENERAL PARTICIPATION AGREEMENT WITH FMG. SIMULTANEOUSLY OR AS SOON AS POSSIBLE AFTER SIGNATURE OF AGREEMENT, SHELL-BP WISHES SIGN "OPERATING AGREEMENTS" WHICH WILL ESTABLISH MODALITIES FOR ITS IMPLEMENTATION. GULF AND MOBIL WOULD CONCLUDE THEIR AGREEMENTS SHORTLY AFTER SHELL-BP.

4. U. S. COMPANIES GULF AND MOBIL, AFTER INITIAL FEELING THAT SHELL-BP WAS MOVING TOO QUICKLY TOWARD SETTLEMENT THAT COULD LEAD TO "LEAPFROGGING" BY PERSIAN GULF STATES, APPEAR TO ACCEPT PROSPECTIVE AGREEMENT AS BEST THAT CAN BE OBTAINED. THEY ARE ALSO ANXIOUS TO NAIL DOWN AGREEMENTS WITH NIGERIA SOON TO PRECLUDE POSSIBLE LIBYAN EFFORT HAVE FMG STIFFEN ITS TERMS IN LINE WITH LIBYA'S EXCESSIVE DEMANDS. INTERESTINGLY, MOBIL REP SAID PERMSEC MINES AND POWER ASIODU HAS ALSO BEEN URGING COMPANIES SIGN AGREEMENT AS QUICKLY AS POSSIBLE IN ORDER PREVENT A POSSIBLE CONFRONTATION IN LIBYA FROM AFFECTING NEGOTIATIONS IN NIGERIA. THEY RECOGNIZE THIS IS PARTIALLY NEGOTIATING TACTIC BY ASIODU TO OBTAIN COMPANIES' APPROVAL OF TERMS QUITE FAVORABLE TO NIGERIA BUT THEY ALSO AWARE SOME NIGERIANS ARE URGING ASIODU DELAY AGREEMENT IN ORDER BENEFIT FROM LIBYAN DEMANDS AND FEEL HE IS GENUINELY ANXIOUS CONCLUDE AGREEMENT BEFORE THESE PRESSURES MOUNT.

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5. COMPANY REPS SAY THAT AS DESIRED BY FMG, AGREEMENTS WILL BE DIFFERENT FROM ARAB PERSIAN GULF AGREEMENTS AND IRANIAN AGREEMENT AND CONCEDE THAT RESULTING BENEFITS TO FMG WILL BE GENERALLY GREATER THAN THOSE EXTENDED PERSIAN GULF PRODUCING STATES. WHILE UPDATED BOOK VALUE IS TO BE CALCULATED ON SOME BASIS AS IN PERSIAN GULF AGREEMENTS, INITIAL GOVERNMENT PARTICIPATION WILL

BE GREATER THAN 25 PERCENT, PROBABLY 30 OR 35 PERCENT. IN ADDITION, FMG WILL PROBABLY RETAIN A LARGER PORTION OF ITS SHARE OF CRUDE PRODCUTION FOR DIRECT MARKETING AND WILL OBTAIN MORE FAVORABLE FORMULA TO CALCULATE PRICE FOR CRUDE TURNED BACK TO PRODUCING COMPANIES. POSSIBLE THAT EFFECTIVE DATE OF AGREEMENT, HOWEVER, WILL BE MARCH OR APRIL RATHER THAN JANUARY.

6. COMPANY REPS HOPE THAT PERSIAN GULF STATES WILL ACCEPT THAT NIGERIA CAN OBTAIN MORE FAVORABLE TERMS BECAUSE OF SUCH FACTORS AS HIGH QUALITY OF NIGERIAN OIL, ITS PROXIMITY TO MAJOR MARKETS, AND FACT THAT FMG WILL HAVE TO PAY HIGH PRICE FOR ITS SHARE OF PARTICIPATION SINCE SMALLER PORTION OF INITIAL CAPITAL INVESTMENTS RELATIVE TO PERSIAN GULF HAVE BEEN WRITTEN OFF IN NIGERIA. ONE COMPANY REP CONCLUDED THAT REGARDLESS OF OUTCOME WITH NIGERIA; NEGOTIATIONS WITH PERSIAN GULF STATES MAY REOPEN THEIR AGREEMENTS BECAUSE OF REPORTED DISSATISFACTION OVER BUY- BACK PRICES AT WHICH COMPANIES CAN OBTAIN BULK OF PRODUCING STATE'S SHARE OF CRUDE. THESE PRICES NOW APPEAR OUT OF LINE WITH WORLD- WIDE INCREASES OF CRUDE PRICES.

7. COMMENT: WHILE IT DIFFICULT FORECAST NIGERIAN REACTION TO MABRUK'S ENTREATIES THAT THEY STIFFEN DEMANDS AND DELAY CONCLUSION AGREEMENTS, THERE ARE INDICATIONS NIGERIANS MAY FIND IT IN THEIR INTEREST TO CONCLUDE PARTICIPATION AGREEMENTS SOON. FIRST, THEY ARE NOT IN POSITION TO RISK ANY CONFRONTATION WITH COMPANIES THAT MIGHT REDEEM OR TEMPORARILY SHUT OFF OIL SUPPODHGA SECOND, THEY UNDOUBTEDLY DO NOT WANT TO APPEAR TO BE SWEEPED UP IN A QADHAFI INITIATIVE WHICH MIGHT ADVANCE LIBYA'S EXTREME DEMANDS BUT NOT NECESSARILY SERVE NIGERIAN INTERESTS. THIRD, NIGERIA APPARENTLY HAS WON TERMS TTAT
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ARE BETTER, AND WILL APPEAR TO NIGERIAN PUBLIC TO BE BETTER, THAN THOSE WON EARLIER BY PERSIAN GULF STATES. COMPANIES HAVE PROBLEM WITH LATTER POINT, BUT APPARENTLY ARE WILLING TO RISK GOING AHEAD WITH NIGERIAN AGREEMENT, BELIEVING THAT IT IS BEST THEY CAN OBTAIN AND WILL NOT GREATLY INCREASE ALREADY DIFFICULT PROBLEM OF MAINTAINING PC AGREEMENTS.
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